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Why Did Federal Fund Send Money to Wealthy and Lackluster Groups?



Pablo Eisenberg

By Pablo Eisenberg

Despite the hype created by the Obama administration about the Social Innovation Fund, its signature program for nonprofit organizations, there is simply not much there.

After the fund announced its first round of grants in July, it has become increasingly clear that the fund is in a shambles. It is unlikely to produce any serious innovation, in large part because it has steered clear of financing grass-roots groups that are undertaking some of the most interesting new approaches in the country.

What's more, its unwillingness to be transparent and free of conflicts of interest has ruined its reputation as a model for all grant makers.

The fund, which started its operations with just \$50-million—too little to achieve its ambitious agenda—adopted grant-making criteria that ensured its grantees would be large, established, safe organizations. And that is exactly what happened when [it selected its first 11 grantees in July](#).

The Corporation for National and Community Service, which houses the Social Innovation Fund, [came under scrutiny](#) about the fairness of the process after at least one of the reviewers said some of the applicants that received relatively low scores nevertheless received grants.

New Profit, a Boston group that supports social entrepreneurs, got extra attention from outside observers when it became clear that it was asked to resubmit its proposal with a smaller budget. It eventually won, causing rumors of favoritism to surface because Paul Carttar, director of the Social Innovation Fund, had worked as an executive at New Profit. (*Editor's note:* the previous paragraph corrects a mistatement about New Profit's proposal included in the original.)

What's more, New Profit had spearheaded America Forward, a coalition that successfully lobbied the Obama administration to create the fund.

Another grantee of the Social Innovation Fund, REDF, a lackluster San Francisco group that takes a social-venture approach to creating jobs to fight poverty, is also a member of America Forward.

And it was not just ties to Mr. Carttar or America Forward that prompted scrutiny.

Patrick Corvington, head of the corporation, had ties to at least one grantee, the Local Initiatives Support Corporation. Before he joined the corporation, Mr. Corvington worked at the Annie E. Casey Foundation, one of the charity's benefactors.

The corporation says that neither Mr. Carttar nor Mr. Corvington were involved in the decision-making process.

Yet staff members at both the Corporation for National and Community Service and the Social Innovation Fund must have been aware of their previous affiliations, a subtle influence that can't easily be discarded just by saying the two men recused themselves from the grant-selection process.

It would be easier to judge whether any favoritism was involved if the grant-making process had been more transparent.

The public has been unable to obtain a list of all the applicants to the Social Innovation Fund or to obtain the names of all the reviewers.

Under pressure from *The Nonprofit Quarterly* and others, the corporation released some information about the fund's procedures and the ratings received by the 11 finalists.

The corporation defended its refusal to announce publicly all the applicants on the grounds that it had promised them anonymity.

But the applications are a matter of public record and therefore subject to government rules of openness, especially in an administration that pledged greater transparency. No such restrictions have been invoked by the Department of Education in its new grant-making programs to foster innovation.

Apart from its lack of transparency, the fund can also be judged by the groups that did not receive money.

None of the winners were groups that were founded by members of minority groups or that focus on working with America's minorities. Nor were there any rural groups, state associations of nonprofits, or advocacy and organizing groups.

Strong organizations like the Community Service Society of New York and the National Council of La Raza, both with solid connections to minority organizations, submitted proposals but were turned down.

The chief reason so few groups that represent the poor were among the grantees is that the fund required grant applicants to show they could provide \$1 from other sources to match every federal dollar they received.

As the head of a national grass-roots-oriented organization observed, "The fund set the financial bar much too high for groups like us."

Another observer noted that the fund "could have waived the matching requirement for smaller organizations, providing the match instead from other sources like private foundations."

But the Social Innovation Fund seemed determined to help the "haves" of the nonprofit world rather than the have nots.

The Edna McConnell Clark Foundation, with assets that top \$750-million, won \$10-million, one-fifth of the total granted by the Social Innovation Fund.

Could one reason the group won be the organization's longtime support for the Harlem Children's Zone, a political favorite of the president's?

The foundation has been successful in developing and nurturing nonprofits that serve low-income and minority young people. But it has the money to continue to do that without any help from the government.

A slight increase in its annual payout would have covered the costs. By giving so much money to a rich foundation, the fund deprived other worthy nonprofits from starting their own innovative programs.

In another set of questionable grants, two health foundations were winners.

The Foundation for a Healthy Kentucky, with assets of more than \$60-million, will receive \$2-million to help poor people get better access to health care, while the Missouri Foundation for Health will also receive \$2-million to further efforts it started five years ago to reduce obesity and tobacco use.

The Missouri foundation has \$900-million in assets. It could easily have afforded to finance the program from its own coffers, thereby freeing up money for other programs.

Among the candidates that the Social Innovation Fund should have encouraged to apply: Health Care for All, in Massachusetts; New England Alliance for Children's Health; and Southern Health Partners, which works in 11 states. All three of them combine advocacy and successful efforts to build grass-roots networks to influence public policies.

The premise of the Social Innovation Fund was that it would develop or expand truly innovative programs.

Instead, by putting so much weight on programs that have already proved successful, as well as on a nonprofit's capacity to provide a sizable match, the fund assured itself that it would support only large, safe, and non-risk-taking programs.

Leaders of the Corporation for National and Community Service and some White House officials mistakenly believe that innovation stems from programs that are modeled on business techniques like venture capital or entrepreneurialism.

That view has excluded thousands of nonprofit groups throughout the country—large and small, advocacy and service, grass-roots and established, rural and urban—that are engaged in innovative practices and efforts.

They urgently require government and philanthropic support.

By failing to meet their needs, the Social Innovation Fund has missed a chance to finance innovations that will help the neediest Americans.

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